1930

Bitter Attack

On

Prof. J. E. Boyle

MADE BY THE MANITOBA WHEAT POOL
IN A RECENT RADIO BROADCAST

TOGETHER WITH
FULL TEXT OF ARTICLE
ENTITLED——

The Crisis of the Canadian Wheat Pool

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Bitter Attack on Professor J. E. Boyle

In a recent radio broadcast the Manitoba Wheat Pool is reported to have made the following bitter attack on Professor J. E. Boyle, Professor of Rural Economy at Cornell University, and a well known authority on grain marketing problems.

"The spectacle of Professor J. E. Boyle again appearing in the columns of Barron's Financial Weekly, to direct a blast against wheat pool members, brings to mind the well known story of Balaam riding forth upon an ass to call down the curses on the Children of Israel. I am not suggesting whether the good professor is the counterpart of Balaam or of the patient beast which carried him—I leave that to your own imagination.

"The fact is, however, that Professor Boyle, who long ago established himself as one of the vicious enemies of the Canadian Pool, has once more taken upon himself the duty of calling curses down upon our organization.

"Last January this same gentleman's work appeared in 'Barron's,' a financial paper published in Boston. It was an out and out attack upon the Canadian Wheat Pool, showing little regard for fact. In fact it was so biased that the grain trade in the United States and Canada saw fit to distribute copies of it far and wide across the wheat growing areas. The article in question was effectively replied to from the statistical viewpoint by Andrew Cairn, our statistician, and then in the 'Scoop Shovel,' Mr J. T. Hull, Publicity Director for the Manitoba Pool, showed up Professor Boyle's insincerity by comparing Boyle's past utterances in which he held up producers' co-operation as the way out of economic difficulty with his newly found hobby of attacking the wheat pool, presumably not purely from philanthropic motives.

"Now all of Boyle's writings have had only one purpose in view, and that has been to shake public confidence in our organization, to present thinly veiled suggestions about us which are not according to fact, to lead farmers of this country away from the association they have built up. The grain trade can well congratulate themselves upon being able to secure in these mysterious ways the services of this same professor because, without discussing the subject of Professor Boyle's mental honesty or sincerity of his judgment, we must admit he has facility of style which enables him to present untruths so they appear as truths and illogical arguments so they appear on the surface as sound reasoning. Judging the man entirely from the standpoint of his ability to write, Professor Boyle is certainly a labourer worthy of his hire.

"But in his last blast, Professor Boyle has made a slip in his concluding paragraph. He writes: 'Can the pool survive this 1930 crisis? Here is clearly a question of loyalty. Members are under contract. Will they stick? Under similar conditions in the United States pool members of various large pools have always deserted

the pool. Will the Canadian farmer behave as the American farmers do? The testimony I have gathered from various sources in Canada was to the effect that these farmers would stick; they were gluttons for punishment; the pool was their religion; they would not break a legal contract.

" 'My own impression,' continues the professor, 'is that these farmers will break away in large numbers when they see the new card of prices. I also feel certain the pool will ultimately disappear, probably by breaking up into a number of smaller and efficient units.'

"That is what Professor Boyle concludes his article with. In other words this man Boyle thinks, in the face of all evidence to the contrary, which he gathered from a variety of sources—he predicts our pool members will soon desert their organization and bring on its downfall—but poor old chap, he does not understand the calibre of our Canadian farmer when he allows his predictions to become so fantastic. It is just possible he has been associating with the class of men who are ready to turn tail as soon as a dark cloud appears. It is obvious he has not been talking with farmers in this country.

"Professor Boyle states the pool deliberately held back sales in anticipation of $2.00 wheat last spring. That statement was either a deliberate lie or an ignorant opinion of the situation. The amazing part follows—that the present troubles of the grain trade are to be laid at our feet because the independent grain trade followed our leadership. Sounds beautiful, Professor, but you will have to do better than that. He is trying to tell us the grand and glorious grain trade was unable to see through the fog any better than we could, that these commercial wizards of the open market, with their many years experience and the advice of their high-powered statistical service and far-flung world connections, did not know what it was all about. He has the temerity to suggest these grain companies did not have enough gumption to figure things out for themselves and would have us believe those paragons of perfection, that high and mighty grain trade, which refers to the pool as a mismanaged failure, did not manage their own affairs any better than we did. Oh, Professor! How could you?

"He forgets the grain trade has dinned into the ears of Western Canada that they are the one and only grain marketing organization. They have boasted so loudly of their perfection that it is now too late to turn back and admit they have been following the judgment of the wheat pool in matters of marketing analysis. In all common decency and self-respect they cannot do it. The best they can do is to claim they ignored the wheat pool and studied the situation and arrived at independent conclusions, and that these conclusions were wrong. It is exciting the way Professor Boyle gallops up from New York to Winnipeg and then back to New York to write his little screed for Barron's, but it is a good thing for Professor Boyle he had already galloped away before he made the terrible mistake of saying the grain trade in this country followed the lead of the Canadian Wheat Pool. Possibly the good gentleman in question is now sharpening his pencil

to write another broadside against the pool, but it doesn't matter any more. After reading his latest article everyone has Professor Boyle's number, and it is not a very big number."

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What Did Professor Boyle Say?

The article which aroused the preceding outburst from the Manitoba Pool appeared in the August 18 issue of Barron's Financial Weekly, a leading U. S. publication, and was entitled "The Crisis of the Canadian Wheat Pool." The full text of the article was as follows:

"The crop year 1929-30, now ending, has been the most bitter and severe experience for the Canadian Wheat Pool. And as the year ends conditions for the pool are getting worse instead of better.

The Race with Argentine Wheat

"The wheat crop of 1929 has brought serious, perhaps fatal, disaster to the pool because of two very simple factors—the pool's policy of withholding wheat from the market and the steady decline of wheat prices since the period of the 1929 harvest. The spring wheat of Canada began to flow to market in volume in September, 1929. Under the old commercial system of marketing wheat, the three months of post-harvest heavy flow to market, September, October and November, were also the three months of heaviest sales. These are the months, under the commercial system, when Canadian wheat was rushed at greatest possible speed over the rails and down the Lakes, to seaboard, and into export in order to have a large portion of the crop out of the way of the Argentine movement. Like Canada, Argentina moves three-fourths of her wheat to the European market. But Argentina's harvest begins in December, thus allowing Canada three free months to reach the European buyers.

"Under the old commercial system, as I have said, Canadian wheat moved to market in heaviest volume during the three months of September, October and November. But with the pool in control of one-half the crop, conditions in 1929 were quite different. The pool withheld wheat during these three months.

The Pool's Miscalculation

"Three reasons were given by the pool for withholding wheat, that is, for speculating for a bull market.

"The statistics assembled by the pool indicated a short crop of wheat in Canada, in the United States, and in Argentina. In other words, relying on the statistical position of the market, the pool came to the conclusion that there was a world shortage of wheat and consequently world wheat prices would rise.

"The Argentine's carryover of the old crop, larger than estimated, was being dumped in the European market at prices substantially lower than those asked by the pool.

"Finally, in October, came the stock market crash which did, for a brief time, lower wheat prices.

"It was natural, in the light of these three factors, for the

pool to believe in $2 wheat by the following May, and to withhold wheat from the market in the fall.

"Hindsight is, of course, clearer than foresight. It is now very easy to look back and see that the pool was mistaken in judging the market significance of the three factors just cited.

Withholding Begets Substitution

"There was a world shortage of wheat. But the price did not rise; it fell. It fell under the simple old law of supply and demand. It takes demand, as well as supply, to establish a price. With the pool withholding wheat, and a little later on our own misguided Farm Board pegging the price of wheat against decline, the European consumers of bread not only ransacked the distant corners of the world for cheaper wheats but they also turned to cheaper substitutes, such as rye, barley and potatoes. So wheat exports from Canada and the United States, low in the fall, failed to pick up in the spring, and wheat prices worked downward to lower and lower levels. Europe, with millions of men out of work and on the verge of starvation, did not want to be held up for bread by 'Uncle Shylock' and the Canadian Wheat Pool. Such was the psychology of the wheat buyers of Europe. Such was their sentiment, and values are about 50% mere opinion or sentiment.

"The pool was mistaken in not promptly underselling the Argentine offerings. For in the end, after accumulating heavy carrying charges, the pool has had to accept prices very substantially lower than the Argentine prices of last fall.

Wheat Prices and the Stock Market

"And the third factor, the stock market crash, had a very brief and temporary effect on wheat prices. It is a well-established fact that wheat affects the stock market as much as the stock market affects wheat. Within one week of the October crash the price of stocks ceased to affect the price of wheat. Indeed, as stocks recovered, wheat continued to fall, thus showing that wheat values were not dominated by the stock market.

"In conferring with pool officials in Winnipeg recently, I was told that the small export of Canadian wheat last fall was due to the regular dealers rather than the pool. My reply was, 'You led the orchestra. The others followed you.'

"It is unfortunately true that many small traders followed the pool's lead in withholding, and were ruined in the process. It is also unfortunately true that a few large grain firms followed the pool's lead, looking for $2 wheat and buying futures accordingly, and these firms have gone into bankruptcy. The two conspicuous failures on the Winnipeg Grain Exchange were doubtless due in large part to speculating for a big rise in wheat prices.

A Costly Carryover

"The pool not only withheld wheat, anticipating a rise, but also had a liberal carryover from the 1928 crop, namely 48,000.000 bushels in Canada. The pool also had a carryover of some millions of bushels of the 1928 crop stored in the United States at seaboard points. For instance, in July, 1930, the pool sold a large volume of 1928 wheat stored in Baltimore. It is customary to figure a carryover charge of 1½ cents per bushel per month on grain stored in terminal elevators. In the fall of 1928 wheat was

worth $1.20. In July, 1930, this wheat was worth 96 cents. Here was a shrinkage in value of 24 cents. Add to this the carry-charge for 23 months, or 34 cents, and the net decline is 58 cents over per bushel.

"At the opening of this discussion I stated that the crop-year 1929-30 has brought disaster to the pool. I said further that this disaster was due to two things—the pool's withholding wheat from the market, and the decline in wheat prices during the year. The withholding policy has been examined. It is now time to look into the second question, namely, the price decline.

"Canadian wheat (No. 1 Northern spot, basis Fort William-Port Arthur) began the 1929 crop year at $1.72; it ended the year at 88 cents.

"Both the United States and Canada came to the end of the 1929-30 crop year with a large carryover.

Wheat Carryover at End of July

"The carryover of Canadian wheat in July, 1930, was the largest on record. Comparative figures for six years are as follows, taking Canadian wheat in all positions (country elevators, interior elevators, terminals, all ports in Canada and United States):

	Bushels
July 31, 1925	21,506,000
July 30, 1926	30,761,000
July 29, 1927	42,671,000
July 27, 1928	70,878,000
July 26, 1929	109,033,000
July 25, 1930	110,649,000

Provincial Governments to the Rescue

"The pool, like the Farm Board, had made gigantic speculation for higher prices. In the case of the Farm Board, the losses fell upon the taxpayer. In the case of the pool, the losses fell on the pool farmer.

"The pool began the 1929 crop year by advancing $1 a bushel on wheat. The wheat was held for higher prices, and the advance was made by borrowing from the banks with the wheat as collateral. When wheat fell below $1 a bushel the banks found they had overextended credit to the pool. To protect the banks against loss, the three provincial governments underwrote these wheat loans. This was the first public evidence that the pool's affairs were in a bad way. When a physician is sent for, there is usually illness in the home. In this instance, the three governments were the doctor sent for. If and when the provincial governments do advance money to the banks to protect their loans, the non-pool farmers will likely be taxed equally with the pool farmers to raise the money. As these lines are being written the indications are that the banks will call upon the governments to make good the shrinkage in value of the pledged wheat.

"To add further to the critical nature of the pool's present position, there is the card of prices, now issued, for the 1930 crop. We will look into this price list at this point.

Card of Prices 1930 Crop

"A card of prices in the form of a chart has been issued for the initial payment for the Saskatchewan pool, effective as of July 16, 1930. A farmer in the 25-cent-freight zone in Saskatche-

wan who sees this chart for the first time will receive some unpleasant surprises, not to say shocks. He will read, for instance, that for the best wheat (No. 1 Northern) the payment is 50 cents a bushel; if his wheat is No. 5, the payment is 27 cents; if it grades feed wheat, the payment is 11 cents. If it happens to be tough feed wheat, he gets 5 cents.

"If the farmer happens to have Durum wheat, he will find the following prices on the wheat chart:

No. 1 Amber Durum	44 cents
No. 6 Amber Durum	13 cents
No. 1 Red Durum	25 cents
No. 5 Red Durum	2 cents

"If the farmer has oats, rye, or barley, he will find these prices on the price chart:

No. 2 C.W. Oats	17 cents
No. 1 Feed Oats	12 cents
No. 2 Feed Oats	5 cents
Rejected Oats	2 cents
No. 1 C.W. Barley	12½ cents
No. 5 C.W. Barley	½ cent
No. 1 C.W. Rye	10½ cents
No. 3 C.W. Rye	5½ cents
Rejected Rye	½ cent
Tough Rejected Rye	nil

Note.—Since Professor Boyle's article was written, a revised card of prices has been issued by the Saskatchewan Pool, effective as of August 26, 1930, reducing the payment on No. 1 Northern, basis Fort William-Port Arthur, from 70 to 60 cents per bushel, and some other grades accordingly.

Had Professor Boyle been in possession of the revised card of Pool prices, the above paragraph headed "Card of Prices, 1930 Crop," would undoubtedly have read as follows:

"A card of prices in the form of a chart has been issued for the initial payment for the Saskatchewan Pool, effective as of August 26, 1930. A farmer in the 25-cent-freight zone in Saskatchewan who sees this chart for the first time, will receive some unpleasant surprises, not to say shocks. He will read, for instance that for the best wheat (No. 1 Northern) the payment is 40 cents a bushel: if his wheat is No. 5, the payment is 21 cents; if it grades feed wheat, the payment is 4 cents. If it happens to be tough feed wheat, he gets nil.

"If the farmer happens to have Durum wheat, he will find the following prices on the wheat chart:

No. 1 Amber Durum_____ 33 cents
No. 6 Amber Durum_____ 5 cents
No. 1 Red Durum_____not quoted
No. 5 Red Durum_____not quoted"

Card-Price Summary

"In other words, the highest price for wheat is 50 cents a bushel; for oats 17 cents; for barley 12½ cents; for rye 10½ cents. There are eight grades of wheat on which the initial payment is five cents a bushel; there are other grades of wheat paying, respectively, three cents, two cents, and one cent a bushel. There are 10 grades of wheat on which the initial payment is nil—the farmer getting merely a piece of paper entitling him to a payment later if prices should rise— otherwise not.

"There are 15 grades of oats on which the initial payment is nil. One Saskatchewan pool farmer made the remark to me, 'If I deliver a wagon load of my oats, I will get enough money to buy a bottle of beer and a plug of tobacco.'

"The card of prices contains 34 grades of rye, 26 of which are marked 'nil.' The other eight grades of rye range in price from a low of ½ cent to a high of 10½ cents per bushel.

The Pool in Jeopardy

"I have now pictured two factors which have created a crisis for the pool—the withholding policy on the 1929 crop and the 50% drop in the price in the 1929 crop. The 1930 crop is sure to be well above the average in both quantity and quality. The new card of prices for the pool's initial 1930 payment has been described above. While these low prices are called 'initial prices,' the farmer is likely to hark back to 1929 when the initial payment was the last payment—was more than the pool succeeded in sell- the wheat for—or he may think back to 1928, when the final payment was never made. If the farmer does recall these two recent experiences, will he deliver his 1930 crop to the pool? Or will he bootleg it? The pool has 140,000 farmers under contract. About 10% of this number regularly bootleg their wheat. Just how many more will break away from the pool this fall is, of course, the crucial question facing the pool. The answer to this question may mean the death of the pool, or a drastic reorganization of the pool, or, if favorable, the triumph of the pool over supreme difficulties. This brings us to a brief consideration of two other pool problems: Is the pool a business or a religion? Can the pool survive?

Pool—A Business or a Religion?

"Persons familiar with the co-operative movement in the United States know that many co-operative leaders have zeal without knowledge. To such persons co-operation is a new religion, and not a business. Some of the pool leaders in Regina and Winnipeg, with whom I have recently conferred, impress me as men of this type. They have too much theory; too little successful business experience. Perhaps the greatest weakness of the pool is its inexperienced leadership. These men have a naive faith in statistics, forgetting that it takes a seasoned judgment to interpret statistics rightly. These leaders have an anti-middleman complex. They even boast of refusing to sell wheat to the 'middleman.' I asked these leaders if they would not have been better off if they had sold their wheat to the devil himself if he had the cash for it. They speak with almost fanatical conviction of the huge and hideous profits of the 'middleman.' In this matter

they remind me of a North Dakota farmer friend of mine who once remarked to me, 'Damn these middlemen! I wish I were one!'

"The pool, in 'eliminating middlemen'—that is, its old customers—did set up in their places agents of its own, particularly in foreign countries. This was a costly step, because it alienated customers, decreased sales, and increased costs. The grain trade is a business, not a religion. Dogmas about 'orderly marketing' and 'eliminating the middleman' may serve as slogans to rally the faithful and hearten them amid the hardships of pioneer farming. But the touchstone of pool success will be the amount of money saved in marketing wheat through the pool rather than through regular commercial channels. During the past two years the pool has failed to meet this test. This brings us to our final question.

Risks and Costs of Withholding

"A large selling corporation, like the pool, which holds the bulk of the crop off the market till spring or early summer, is sure to make money on a rising market and sure to lose on a falling market. Since markets rise as often as they fall, this might seem to imply an even break for the pool. Evidence gathered by all students of the grain trade, so far as I know this evidence, shows that the rise in price from autumn to spring and early summer is in the long run and on the average enough and only enough to cover a carrying charge of a little less than one cent a bushel per month. Few agencies can carry grain as cheaply as this; therefore the fixed policy of withholding a substantial percentage of grain beyond the heavy fall movement is sure in the end to bring a loss to the farmer. In the regular grain trade this speculative risk of price changes is borne by speculators on the futures market. In the pool, the farmer is his own speculator, and is sure in the end to lose a few cents a bushel by it, because the pool cannot carry his wheat for the small advance in price.

"The pool may, of course, turn at any time to the futures market and copy the sound practice of the commercial grain trade, that is, hedge the wheat against price decline.

Can the Pool Survive?

"In the preceding discussion, the present crisis of the pool was described. Can the pool survive this 1930 crisis? Here is clearly a question of loyalty. The members are under contract. Will they stick?

"Under similar conditions in the United States, pool members of various large pools have always deserted the pool. Will the Canadian farmer behave as American farmers do? The testimony I gathered from various sources in Canada was to the effect that these farmers would stick; they were gluttons for punishment; the pool was their religion; they would not break a legal contract. My own impression is that these farmers will break away in large numbers when they see the new card of prices. I also feel certain that the pool will ultimately disappear, probably by breaking up into a number of smaller and more efficient units. At present it is not an efficient marketing agency."